

Message Text

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C O N F I D E N T I A L STATE 236771

E.O. 11652: GDS

TAGS: EGEN, EAID, EG

SUBJECT: IMF OBSERVATIONS ON AID TO EGYPT

REF: CAIRO 12825

1. JOHN GUNTER, MIDDLE EAST DEPARTMENT CHIEF OF IMF, CALLED DEPARTMENT TO REPORT ON HIS MEETINGS IN LONDON WITH SAUDI FINANCE MINISTER ABA AL-KHAYL AND TWO TELEGRAMS JUST RECEIVED FROM PAUL DICKEY IN CAIRO. GUNTER ALSO OUTLINED HIS PRESENT VISION OF REALISTIC TIMETABLE FOR COPING WITH EGYPTIAN BALANCE OF PAYMENTS CRISIS.

2. GUNTER FOUND ABA AL-KHAYL HAD NO CONCEPTION OF THE DIMENSIONS OF EGYPTIAN BALANCE OF PAYMENTS GAP OR THE EXTENT OF GOE ARREARS ON DEBTS TO FOREIGN SUPPLIER CREDITORS AND COMMERCIAL BANKS (\$650 MILLION AT END OF JULY). HE SAID NEITHER SAUDIS NOR OTHER MEMBERS OF GODE HAD RECEIVED A SENSE OF URGENCY IN DISCUSSING CASH LOAN OR GODE GUARANTY WITH EGYPTIANS. ABA AL-KHAYL HAD IN MIND
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DELAYING GODE CASH LOAN UNTIL AFTER IMF STANDBY CREDIT

WAS ISSUED BUT PROCEEDING WITH GUARANTY AGREEMENT WITH CHASE-LED CONSORTIUM WHEN PAPERS ARE READY THIS FALL.

3. GUNTER TOLD ABA AL-KHAYL THAT EGYPTIAN FINANCIAL CONDITION WAS TOO DESPERATE TO DELAY EITHER GODE GUARANTY OR CASH LOAN PENDING ISSUANCE OF IMF STANDBY. HE SAID IMF NOW FORESEES NEGOTIATION OF REVISED STABILIZATION PROGRAM WITH NEW GOVERNMENT TO BE FORMED FOLLOWING EGYPTIAN ELECTIONS -- AT BEST EARLY NOVEMBER. REVISED PROGRAM WILL ABANDON EARLIER PLAN FOR A FLOATING COMMERCIAL EXCHANGE RATE WITH DAILY CENTRAL BANK INTERVENTION IN THE MARKET; INSTEAD, A SIMPLE ADJUSTABLE RATE STARTING AT A SUBSTANTIALLY DEVALUED POUND-DOLLAR RELATIONSHIP AND APPLICABLE TO ALL BUT A FEW IMPORT ITEMS WOULD BE SUGGESTED. (NEW APPROACH WOULD NOT REQUIRE ESTABLISHMENT OF LARGE FOREIGN EXCHANGE INTERVENTION FUND.)

4. GUNTER AND ABA AL-KHAYL DID NOT REACH CONCLUSION ON HOW TO USE LEVERAGE OF GODE'S PENDING LOANS TO RECOMMIT SADAT TO EARLY ADOPTION OF IMF STABILIZATION PROGRAM. HOWEVER, THEY PLAN TO MEET AGAIN IN EARLY NOVEMBER AND MAY COMMUNICATE THROUGH SAUDI REPRESENTATIVE AT MANILA IMF/IBRD MEETING.

5. ABA AL-KHAYL ASKED GUNTER FOR A THREE-YEAR PROJECTION, I.E., CY 1977-79, OF EGYPTIAN REQUIREMENTS FOR BALANCE OF PAYMENTS AID, BASED ON ASSUMPTION THAT GODE WILL ADOPT A STABILIZATION PROGRAM SATISFACTORY TO IMF BEFORE END OF 1976, AND ESTIMATE OF BALANCE OF PAYMENTS AID OF ALL TYPES AND SOURCES LIKELY TO BE AVAILABLE TO GOE IN THIS PERIOD. DEPARTMENT/AID WILL PROVIDE ESTIMATES ON U.S. ASSISTANCE LIKELY TO BE ALLOCATED TO CIP, PL 480 TITLE 1 OR OTHER FAST-DISBURSING PROGRAMS. REQUEST EMBASSY ESTIMATES INCLUDING PRESENTLY KNOWN DATA ON TRENDS OF OTHER COUNTRIES' AID APPLICABLE TO EGYPTIAN CURRENT ACCOUNT BALANCE OF PAYMENTS.

6. DICKEY REPORTED TO GUNTER THAT COMMERCIAL BANKS ARE BECOMING RESTIVE OVER GROWING EGYPTIAN ARREARAGE AND CONFIDENTIAL

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LACK OF ASSURANCE WHEN ADDITIONAL FOREIGN EXCHANGE WILL BE IN HAND. SUBSEQUENTLY, DICKEY REPORTED THAT SADAT WAS EXPECTED TO SIGN GODE ESTABLISHMENT DOCUMENTS TODAY AND THAT ABU ISMAIL HAD JUST MADE AN URGENT REQUEST TO GODE FOR MOVEMENT ON THE DIRECT LOAN. HE ALSO REPORTED THAT ABU ISMAIL SAID HE HAD INITIATED CONTACT WITH IRAN ON A GUARANTY OF A SECOND COMMERCIAL BANK REFINANCING LOAN AND HAD JUST RECEIVED THE UAE'S PROMISED \$50 MILLION

BILATERAL PAYMENT.

7. BELIEVE THIS LATER INFO FROM GUNTER CANCELS
SUGGESTION IN REFTEL FOR US TO CONTACT SAUDIS. ROBINSON

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